

Message Text

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PAGE 01 MADRID 05198 081816Z
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1. SUMMARY: THE NEW SUAREZ GOVERNMENT HAS APPARENTLY GONE RIGHT TO WORK ON A PACKAGE OF ECONOMIC MEASURES. WE HAVE LEARNED THAT THE NEW ECONOMIC TEAM, LED BY VICE PRESIDENT FUENTES AND FINANCE MINISTER FERNANDEZ ORDONEZ, HAS BEEN PUTTING IN LONG HOURS AND STUDYING OPTIONS FOR A STABILIZATION PROGRAM. MADRID NEWSPATERS ARE REPORTING THERE IS EVEN A POSSIBILITY THAT NEW MONDAY - JUST ONE WEEK AFTER THE NAMING OF THE SECOND SUAREZ GOVERNMENT - THERE COULD BE SOME IMPORTANT ECONOMIC ANNOUNCEMENTS FOLLOWING THE CABINET MEETING. WE HAVE ALSO HEARD UNPUBLISHED RUMORS FROM MID-LEVEL SPANISH OFFICIALS THAT A PESETA DEVALUATION IS POSSIBLE AS EARLY AS THIS WEEKEND. WE DON'T KNOW WHETHER ANY SUCH ACTIONS WILL HAPPEN THIS EARLY, BUT WE NOW BELIEVE THE SUAREZ GOVERNMENT WILL NO LONGER DELAY ACTION DIRECTED AT SPANISH ECONOMIC PROBLEMS. SOCIALIST PARTY SOURCES TELL US THAT THE GOVERNMENT HAS ALREADY CONTACTED THE PSOE ABOUT THE PROGRAM. END SUMMARY.

2. WE SEE THE FIRST SIGNS OF A BROAD CONSENSUS THAT THE NEW SUAREZ GOVERNMENT SHOULD AND WILL UNDERTAKE
CONFIDENTIAL

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PAGE 02 MADRID 05198 081816Z

SOON AN ECONOMIC STABILIZATION PROGRAM AND A CHANGE IN THE PESETA PARITY. THERE ARE NO LONGER OFFICIAL OR PRESS VOICES COUNSELING CAUTION OR FURTHER STUDY BEFORE ECONOMIC MEASURES, AND THE DEBATE ON A PESETA DEPRECIATION NOW CENTERS ON HOW MUCH AND WHEN. IN FACT, THE BANK OF SPAIN HAS ALREADY ALLOWED THE PESETA TO WEAKEN VERY LIGHTLY

AGAINST THE DOLLAR.

3. THE SPECULATION THAT THE GOVERNMENT MAY ANNOUNCE SOME ACTION IN A MATTER OF DAYS OR WEEKS IS NEW. UNTIL THE CABINET WAS NAMED ON JULY 4, IT HAD BEEN FELT BY MANY THAT ECONOMIC ACTION MIGHT BE DELAYED UNTIL FALL OR LATER. REASONS CITED THEN INCLUDED PRESSING POLITICAL PROBLEMS, THE DIFFICULTIES OF PLANNING A STABILIZATION PROGRAM, THE FEAR THAT SUMMER TOURISTS WOULD BRING LESS DOLLARS TO SPAIN IF THE PESETA WERE DEVALUED BEFORE SEPTEMBER, AND THE INACTION OF THE FIRST SUAREZ GOVERNMENT.

4. SPANIARDS ARE NOW MUCH MORE WILLING TO BELIEVE ACTION WILL BE TAKEN. SUAREZ AND HIS TOP ECONOMIC LIEUTENANTS, ECONOMICS VICE PRESIDENT FUENTES AND FINANCE MINISTER "PACO" ORDONEZ, HAVE BEEN HOLDING NUMEROUS MEETINGS AND WORKING LONG HOURS. A PSOE SOURCE INFORMED US THAT ORDONEZ HAS, THROUGH HIS BROTHER, PROPOSED GOVERNMENT DIALOGUE WITH THE SOCIALISTS ON THE DETAILS OF AN ECONOMIC PROGRAM, ONCE ITS GLOBAL OUTLINES ARE ANNOUNCED. THIS SOURCE - AND SOME PRESS - SUGGEST MONDAY ANNOUNCEMENT. SPANISH OFFICIALS ALSO SAY THEIR LEADERS ARE NOW TALKING LESS ABOUT SUCH MATTERS AS FILLING POSITIONS IN THE SOMEWHAT RESTRUCTURED GOVERNMENT THAN ABOUT SPECIFIC

CONFIDENTIAL

PAGE 03 MADRID 05198 081816Z

ECONOMIC ACTIONS. THE SUAREZ GOVERNMENT HAS MADE NO ATTEMPT TO DAMPEN THE RESULTING REPORTS THAT AN ECONOMIC PACKAGE COULD BE ANNOUNCED SOON. AND IT IS NOW EVEN BEING SAID BY SOME OBSERVERS THAT EARLY ACTION ON SUCH AN PACKAGE, LIKE THE JULY 4 RESTRUCTURING OF THE GOVERNMENT, IS PART OF A SUAREZ EFFORT TO PORTRAY HIS NEWLY-ELECTED UCD PARTY AS DYNAMIC AND AS CHANGE-ORIENTED.

5. WE HAVE ALSO HEARD FROM MIDDLE-RANKING SPANISH OFFICIALS THAT A PESETA DEVALUATION OR DEPRECIATION IS POSSIBLE THIS WEEKEND. A DEVALUATION WOULD HELP STEM CAPITAL FLIGHT AND WOULD ENCOURAGE FOREIGN INVESTORS AND SOME FOREIGN LENDERS. HOWEVER, A MAJOR CONSIDERATION IN DECIDING WHEN TO DEVALUE IS THE DEMONSTRATED SPANISH TENDENCY TO RAISE ALL PRICES AFTER A LOWER PESETA PARITY IS ANNOUNCED. THE OBVIOUS REMEDY FOR THIS INSTANT INFLATION IS PRICE CONTROLS, AND WE WONDER WHETHER THE GOVERNMENT COULD ALREADY BE PREPARED TO ANNOUNCE THIS SINCE PRICE CONTROLS ARE AN INGREDIENT OF THE BROADER STABILIZATION PROGRAM.

6. IF MAJOR ECONOMIC ACTIONS ARE NOT MADE IN THE
NEW FEW DAYS OR WEEKS, IT MAY STILL BE A POSITIVE
ACHIEVEMENT THAT SPANIARDS SEEM MORE TO EXPECT
AND ACCEPT A PACKAGE OF MEASURES WHICH WILL MEAN
A DEGREE AUSTERITY HERE. STABLER

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